

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

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SIL-01 H-02 L-03 PA-02 PRS-01 /111 W

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R 111916Z JUL 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1183

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 02 PARIS 18087

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 26741, JUNE 27, 1975

1. SUMMARY. DESPITE SOBER NEWS FROM NEARLY ALL ECONOMIC FRONTS, GOF STICKS TO ITS LINE THAT "ALL WILL BE WELL." THIS EPITOMIZED BY LATEST PRESIDENTIAL ADDRESS JUNE 30, IN WHICH GISCARD IN EFFECT TOLD COUNTRYMEN TO GO OFF ON THEIR VACATIONS, FORGET ABOUT THE ECONOMY AND "LEAVE THE DRIVING TO US." PROSPECTS FOR POST-VACATION PERIOD, HOWEVER, LOOK INCREASINGLY BLEAK. NOTWITHSTANDING OFFICIAL OPTIMISM, LATEST FIGURES INDICATE RENEWED UNCLASSIFIED

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DECLINE IN INDUSTRIAL PRODUCTION AND SHARP DROP IN

INVESTMENT SPENDING. THIS RAISES THE SPECTER OF FURTHER INCREASES IN UNEMPLOYMENT, ALREADY AT POSTWAR HIGH. IN MIDST OF SUCH DOMESTIC DIFFICULTIES -- AND DESPITE STRONG ECONOMIC ARGUMENTS TO THE CONTRARY -- GOF WENT AHEAD WITH ITS DECISION TO RETURN FRANC TO EUROPEAN MONETARY "SNAKE" ON JULY 10. END SUMMARY.

2. GOF STRIKES CONFIDENT POSE AS ECONOMIC OUTLOOK DARKENS -

FOLLOWING LATEST EFFORT ON PART OF PRESIDENT GISCARD D'ESTAING TO ASSUAGE FRENCHMEN'S CONCERNS ABOUT THE ECONOMY (SEE PARIS 17104), GOF SPOKESMEN HAVE BEEN HARD-PRESSED TO DEMONSTRATE THAT ALL IS -- OR SOON WILL BE -- WELL IN FRENCH ECONOMY. SHORTLY AFTER PRESIDENT'S JUNE 30 "FIRESIDE CHAT," PRIME MINISTER CHIRAC PROCLAIMED "WE ARE AT THE END OF THE TUNNEL OF THE RECESSION." CHIRAC ADDED THAT ECONOMIC REVIVAL IN THE OFFING (HE DID NOT SAY WHEN) AND THAT THIS WOULD RESULT, FIRST, IN REDUCTION IN WHAT HE TERMED "PARTIAL UNEMPLOYMENT," AND ULTIMATELY IN INCREASED HIRING.

AS DETAILED BELOW, AVAILABLE INDICATORS OF CURRENT STATE OF FRENCH ECONOMY RUN CONTRARY TO SANGUINE OUTLOOK BEING PROMOTED BY GISCARD AND COMPANY. (AND, AS COULD BE EXPECTED, POLITICAL OPPOSITION HAS NOT MISSED OPPORTUNITY TO POINT OUT CLOUD BEHIND GOF'S SILVER LINING. SOCIALIST LEADER FRANCOIS MITTERAND, FOR ONE, TOOK OCCASION OF PRESIDENT'S SPEECH TO REITERATE COUNTER-PROPOSALS FOR REVIVING ECONOMY; SEE PARIS 17734.) HOWEVER, PRESUMABLY OBJECTIVE ANALYSES SHOW NO CAUSE FOR OPTIMISM IN NEAR-TERM OUTLOOK. LEADING PRIVATE BANK, SOCIETE GENERALE, REPORTED LAST WEEK IT EXPECTS 2 PERCENT REAL DECLINE IN 1975 GROSS INTERNAL PRODUCT, WITH NO POSSIBILITY OF UPTURN BEFORE EARLY NEXT YEAR. AND ON JULY 3, HEAD OF PARLIAMENTARY ECONOMIC AND SOCIAL COUNCIL SAID THAT ECONOMIC REVIVAL COULD NOT MATERIALIZE UNTIL 1976, "EVEN UNDER MOST OPTIMISTIC ASSUMPTIONS."

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SPOKESMEN FOR BUSINESS AND INDUSTRY SIMILARLY PESSIMISTIC ON ECONOMIC OUTLOOK. LATEST REPORT BY FRENCH PATRONAT (ROUGHLY EQUIVALENT TO N.A.M.) NOTES THAT FRENCH INDUSTRY NOW OPERATING FAR BELOW CAPACITY AND THAT INVESTMENT SPENDING "VERY DEPRESSED" (ALSO SEE PARA. 5 BELOW). PATRONAT REPORT CONCLUDES WITH OBSERVATION THAT FACTORS WHICH WOULD HALT DOWNWARD TREND HAVE YET TO APPEAR.

3. OUTPUT DOWN TO LOWEST POINT IN 3 YEARS -

FRENCH INDUSTRIAL PRODUCTION REGISTERED NEW DECLINE
IN MAY, RETREATING TO LEVEL SET IN MAY, 1972. OVERALL
INSEE INDEX OF INDUSTRIAL OUTPUT SET AT 110 (SEASONALLY
ADJUSTED, BASE 1970 AS 100), DOWN 2 PERCENT FROM MARCH-
APRIL LEVEL AND NEARLY 13 PERCENT FROM LAST MAY.

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FRENCH INDUSTRIAL PRODUCTION
THREE-MONTH MOVING AVERAGES
(SEASONALLY ADJUSTED; BASE 1970 AS 100)

SEP OCT NOV DEC JAN FEB MAR APR MAY

126 124 120 118 116 116 115 113 111

4. MALAISE CONTINUES AMONG BUSINESSMEN -

JUNE SURVEY OF BUSINESS INTENTIONS AND EXPECTATIONS
BY INSEE (NATIONAL STATISTICS INSTITUTE) CONFORMS WITH
NEAR-TERM OUTLOOK SKETCHED ABOVE: THE TREND IS DOWNWARD.
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BUSINESSMEN RESPONDING TO SURVEY INVARIABLY INDICATED
CUTBACKS IN THEIR OWN OUTPUT FOLLOWING SLIGHT INCREASES
REPORTED IN MAY. LEVELS OF FINISHED INVENTORIES
REMAIN VERY HIGH, ALTHOUGH SOME DRAWING-DOWN INDICATED.
UNFILLED ORDERS CONTINUE AT LOW LEVELS EXPERIENCED FOR
FOUR MONTHS RUNNING.

INDUSTRIALISTS' EXPECTATIONS ON OVERALL INDUSTRIAL
PRICES, ACCORDING TO INSEE, ARE NOTICEABLY LOWER THAN
HERETOFORE. WITH REGARD TO THEIR OWN PRICES, HOWEVER,
SURVEY RESPONDENTS DID NOT INDICATE FURTHER REDUCTIONS.
INCREASES IN PRODUCER PRICES EXPECTED TO BE "MODEST"
OVER COMING MONTHS.

5. INVESTMENTS TO STAGNATE UNTIL 1976 -

SEMI-ANNUAL INSEE SURVEY OF INVESTMENT SPENDING
BY INDUSTRY (CONDUCTED BETWEEN MAY 3 AND JUNE 6)
PROJECTS OVERALL INCREASE IN VOLUME DURING 1975 ON ORDER
OF 8 PERCENT. GIVEN EXPECTED PRICE INCREASES FOR
CAPITAL GOODS, HOWEVER, THIS COULD WORK OUT TO REAL
DECLINE OF SOME 2 PERCENT.

MOST DRASTIC CUTBACKS IN CAPITAL EXPENDITURES
CENTERED IN CONSUMER-GOODS SECTOR, WHERE DECLINE SHOULD
REACH 20 PERCENT. AUTO INDUSTRY IN PARTICULAR MAKING
FURTHER CUTS IN INVESTMENT BUDGETS. MAJOR REDUCTIONS
IN CAPITAL SPENDING ALSO EXPECTED IN INTERMEDIATE-GOODS
SECTOR. AS FOR CAPITAL-EQUIPMENT SECTOR ITSELF, ONLY
SLIGHT CUTBACKS EXPECTED -- APPARENTLY WITH HOPE THAT
SECTOR'S EXPORT PROSPECTS WILL BEGIN TO IMPROVE SOONER
THAN WILL DOMESTIC SALES.

ACCORDING TO INSEE STUDY, INVESTMENT PROSPECTS
CONSIDERABLY BRIGHTER FOR NEXT YEAR. WITH LARGEST
INCREASES EXPECTED IN INTERMEDIATE-GOODS AND CAPITAL-
EQUIPMENT SECTORS, OVERALL 17 PERCENT EXPANSION IN
INVESTMENT SPENDING PROJECTED FOR 1976. THIS

WOULD CORRESPOND TO REAL INCREASE OF 7 TO 10 PERCENT --
A MORE "NORMAL" PROGRESSION IN TERMS OF FRENCH INVEST-
MENT SPENDING IN RECENT YEARS (BUT OF COURSE REFLECTING
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VERY LOW 1975 LEVELS AS BAS OF COMPARISON).

6. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

16788 FOREIGN INVESTMENT STUDY
ACT OF 1974 JUNE 27, 1975

17999 THE FRANC REJOINS THE
"SNAKE" AMID GROWING
DOUBTS ABOUT PROSPECTS
FOR THE FRANC IN 1976 JULY 11, 1975

AIRGRAMS

A-297 VALUE OF TRADE IN MANUFACTURES JUNE 30, 1975

A-303 FOREIGN INVESTMENT STUDY ACT
OF 1974 JULY 1, 1975

A-307 FRENCH FOREIGN EXCHANGE
HOLDINGS JULY 7, 1975

A-31 FRENCH RESERVES IN JUNE 1975 JULY 8, 1975
RUSH

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